BNY MELLON

iFlow

MARKET MOVERS

March 18, 2024

Rethinking

““The visionary starts with a clean sheet of paper and re-imagines the world.” – Malcom Gladwell
“Success today requires the agility and drive to constantly rethink, reinvigorate, react and reinvent.” – Bill Gates

Summary

Risk on with repricing of fears about central banks insufficient to block money being put to work. The better China industrial production and retail sales add to the rising view that 1Q is a turnaround globally even with BOJ expected to hike and the FOMC now expected to be slower for lower. The rise in energy prices could matter but hasn’t spooked the other markets, while lack of other big news keeps focus on divergence of Fed from ECB and other central banks in the cutting plans ahead. Derailing a feel-good Monday after a downbeat Friday is dangerous and requires some repricing rethinking. On the day ahead NAHB housing and more US treasury bill sales seems unlikely to shift the nascent trends from overnight.

What’s different today:

- **Natural Gas prices up 8% to E29/mwh** – fourth day of gains, highest since February, driving on supply concerns as US LNG terminal repairs in Texas and ongoing Ukraine attacks on Russia refiners, and below average wind power in Europe drive use.
- **Brent Crude Oil over $86 bbl** – highest since November – adding to last week 4% gains – linked to idling Russia capacity (down 7% in 1Q) post Ukraine attacks, ongoing worries about Israel and Rafah plans.

What are we watching:

- **US March NAHB housing market index** expected flat at 48 – start of heavy week for housing data, sector bottoming hopes key part of growth story
- **US Treasury Bill Sales** – 3M $76bn and 6M $70bn – both ahead of Fed and fears of less rate cuts.

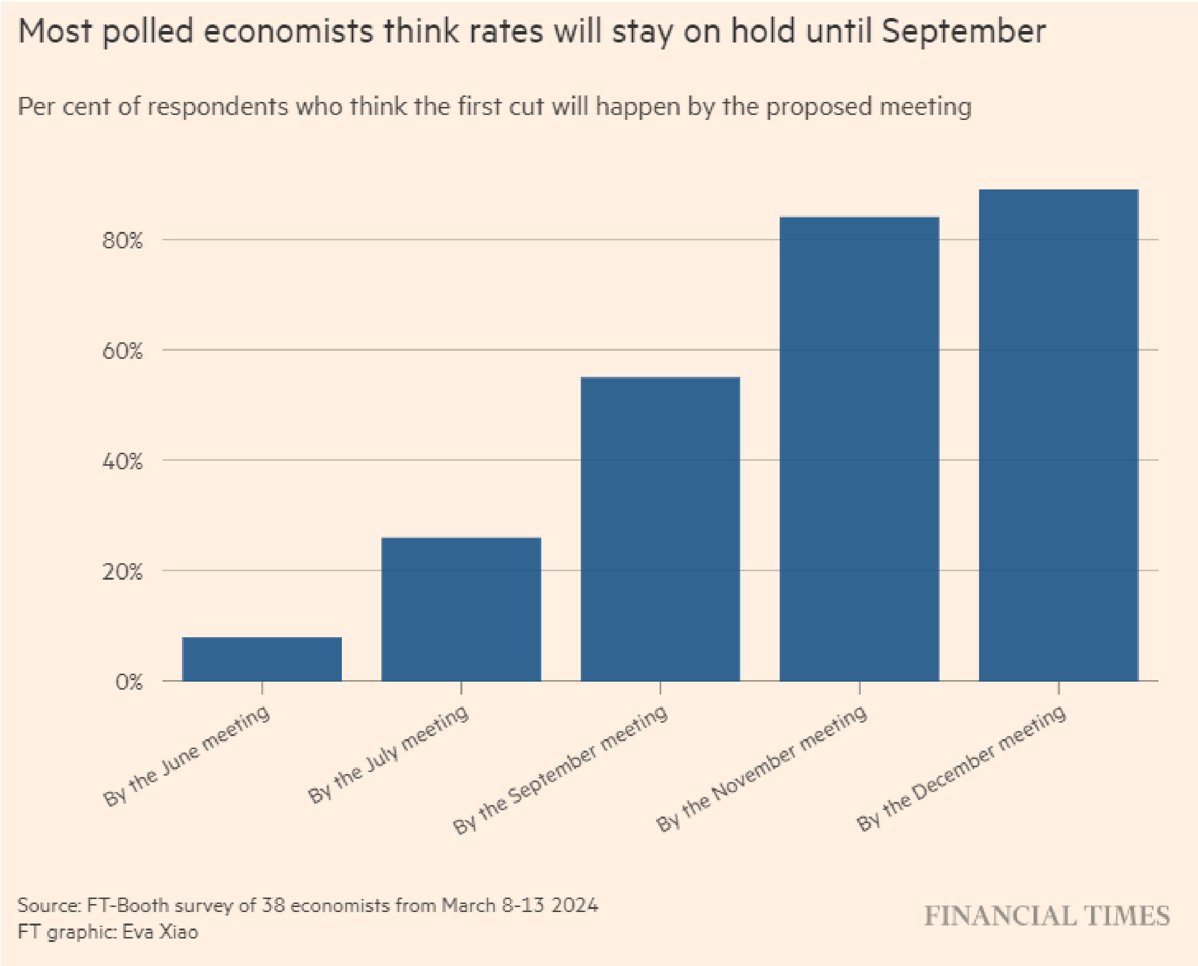
Headlines:

- Nikkei News: BOJ expected to end negative rates Tuesday, scarp YCC and end ETF/Reit buying – Jan core machinery orders drop -1.7% m/m – Nikkei up 2.67%, 10Y JGB yields off 1.5bps to .755%, JPY off 0.1% to 149.15
- China Jan-Feb industrial production up 7% y/y – best in 2-years, while retail sales slow to 5.5% y/y -13th straight gain, property investment -9.2% y/y, unemployment up 0.1pp to 5.3% - highest since July – CSI 300 up 0.94%, CNH flat at 7.2055
- New Zealand Feb services PSI rises 0.8 to 53 – best in 11-months – NZD up 0.1% to .6090
- ECB De Cos: If macroeconomic forecasts are met, normal for us to cut rates soon; ECB Rehn: Sees conditions emerging for several rate cuts this year – final Feb CPI confirmed off 0.2pp to 2.6% with core off 0.2pp to 3.1% y/y – EuroStoxx 50 up 0.2%, EUR up 0.1% to 1.09
- Norway Jan monthly mainland GDP up 0.4% m/m rebounding on retail trade – NOK up 0.3% to 10.583
- Russian President Putin wins 5th term with 87% of vote and highest turnout since 1991 – WTI up 0.8%
- WSJ Timiraos: Fed challenge is to know if rates are restrictive enough, strong economy tests argument policy too tight; FT/Booth School survey of economists see high for longer, 2 cuts in 2024.

The Takeaways:

There is a rethinking of the week ahead rather than a repricing. This is the risk for the week and perhaps on the day as markets are happy to buy stocks, hold the USD and wait on bonds until after the FOMC meeting and the outlook that it will deliver on cuts – with 2 rather than 3 the worst fear. The war in Israel/Gaza continues apace and markets are unnerved about the lack of peace deals now with energy prices higher, similarly the re-election of Putin in Russia bring more not less worries about Ukraine and energy. A poll from the FT/Chicago Booth School leads the talk about rate shift discussions with 2 cuts now seen as logical. Whether the Fed eases at all remains a function of the economy ahead and the picture we have seen from last week is for slower requiring lower rates still. The sanguine view of US growth may shift with more data this week and that is the key risk to consider on the day as NAHB housing restarts the focus on that sector that is so linked to rate moves. The ability for the US consumer to spend is not purely about jobs but also mood and with gasoline prices up, the election in full cycle and half the voters convinced the US isn't doing well, spending could drop regardless of some companies likely not hiring as quickly or actually laying off workers. The ability for the consumer balance sheet to hold with rates high for longer remains the key problem for the FOMC forecasts, and that forward guidance tool to work – as the shift from 3-4 cuts to 2-3 cuts isn't as big a story as the process of rethinking the data and what matters ahead. Letting the data do the work means rethinking how to interpret it to match the story lines of a market ready to put more money to work.

US number and timing of cuts changing?



Details of Economic Releases:

1. New Zealand February Services NZ PSI up to 53 from 52.2 – better than 52.9 expected – best in 11-months and nearing 53.4 long-term average. The key sub-index results for both Activity/Sales (53.1 vs 53) and New Orders/Business (56 vs 52.3) remained in positive territory, with the latter at its highest level since December 2022. However, there was a larger proportion of negative comments from businesses, which stood at 57.3%, compared with 53% in January and 58.7% in

December. BNZ’s Head of Research Stephen Toplis said that “when we combine the PMI and PSI together to get an indicator of activity, there is a strong suggestion of growth returning later this year."

2. Japan January core machinery orders drop -1.7% m/m, -10.9% y/y after +1.9% m/m, -0.7% y/y- weaker than the -1% m/m, -11.2% y/y expected. The decrease in capital spending was driven by a 13.2% decline in the manufacturing sector to 362.3 billion yen, while the non-manufacturing sector saw an increase of 6.5% to 463.9 billion yen. The highly volatile data series is considered as a leading indicator of capital spending in the coming six to nine months.

3. China Jan-Feb industrial production rises to 0.6% m/m, 7% y/y from 6.8% y/y – better than 5% y/y expected - the fastest expansion in industrial output in almost two years, boosted by robust activities in manufacturing (7.7% vs 7.1% in December) and utilities (7.9% vs 7.3%), while mining continued to rise (2.3% vs 4.7%). By industries, production accelerated for computer and communications (14.6% vs 9.6%), and textile (6.6% vs 2.1%. Meanwhile, production continued to grow for coal mining and washing (1.4% vs 5.8%), oil and natural gas mining industry (3.0% vs 3.5%), non-ferrous metals (12.5% vs 12.9%), chemicals (10.0% vs 11.0%), general equipment (4.1% vs 4.6%), electrical machinery (4.6% vs 10.1%), and cars (9.8% vs 20.0%).

4. China Jan-Feb retail sales slows to 5.5% y/y from 7.4% y/y – better than 5.2% y/y expected - the 13th straight month of growth in retail trade, as sales rose further for grain and food oil (9.0% vs 5.8% in December), gold, silver, and jewelry (5.0% vs 29.4%), clothing (1.9% vs 26.0%), furniture (4.6% vs 2.3%), communications equipment (16.2% vs 11.0%), cars (8.7% vs 4.0%), and oil products (5.0% vs 8.6%). Further, sales rebounded for home appliances (5.7% vs -0.1%) and building materials (2.1% vs -7.5%). Meanwhile, trade continued to fall for personal care (-0.7% vs -5.9%) and office supplies (-8.8% vs -9.0%).

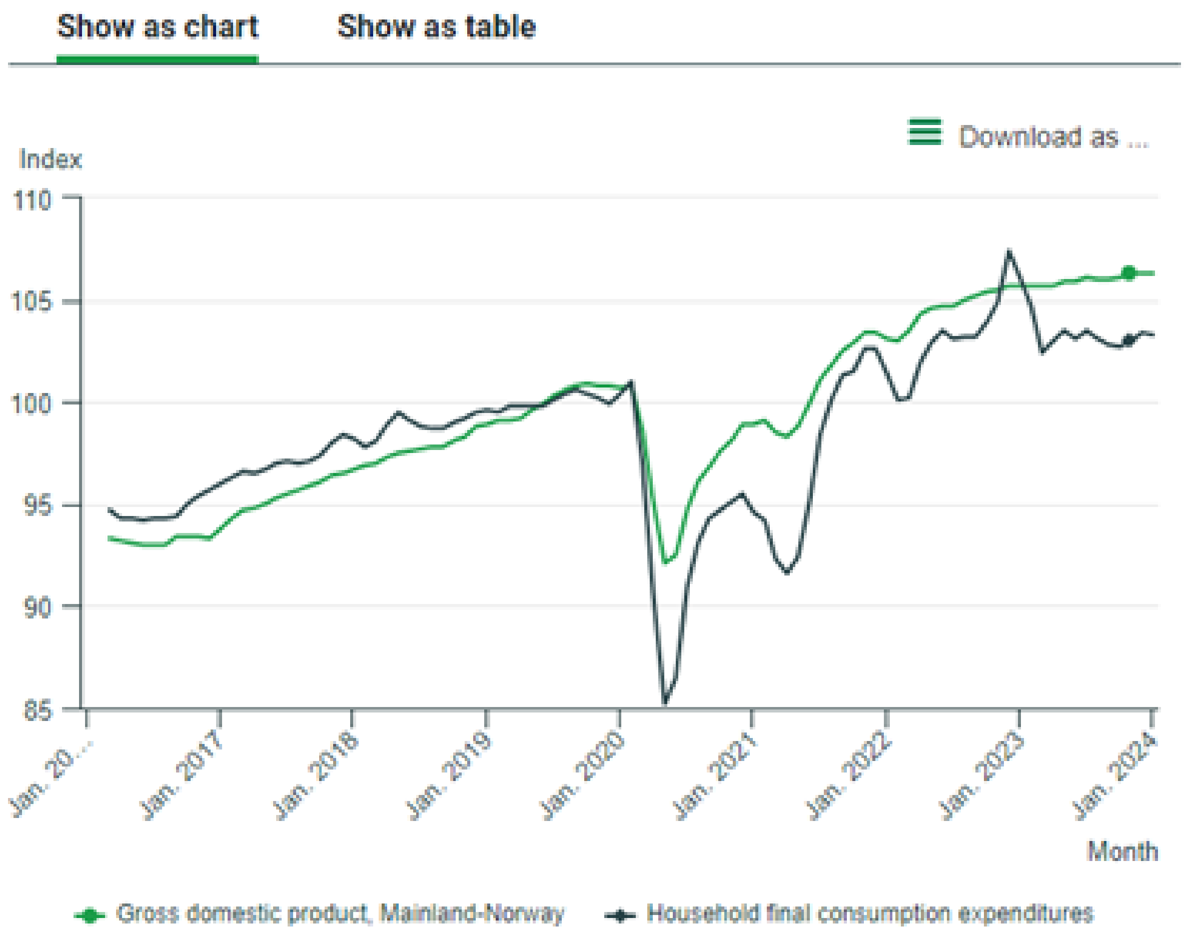
5. China Jan-Feb fixed asset investment rises to 4.2% y/y from 3.0% y/y – better than 3.2% y/y expected. Investment in the secondary sector accelerated (11.9% vs 9.0% in December), driven by growth in electricity, heat, gas and water (25.3%), and mining (14.4%). Also, investment in the tertiary sector rose by 1.2%, much faster than the prior 0.4% gain, lifted by solid growth in railway transportation (27.0%), road transportation (8.3%), and water conservancy management (13.7%). By contrast, investment in the primary sector fell much steeper (-5.7% vs -0.1%). Meanwhile, investment in real estate contracted by an annual 9.4% during the first two months of the year, compared with a plunge of 9.6% in the prior period.

6. China February unemployment rises to 5.3% from 5.2% - worse than 5.1% expected - highest reading since last July, with the unemployment rate of the local registered labor force at 5.5% while that of the migrant labor force was at 4.8%. The jobless rate in 31 large cities and towns was at 5.1%. The average weekly working hours of employees in enterprises were 48.0 hours. For 2024, the government has targeted a jobless rate of around 5.5%, possibly creating about 12 million new urban jobs. China has set a GDP growth target of around 5% for 2024. Last year, the unemployment rate dropped to 5.2% from 5.6% in 2022, better than the official target of around 5.5%.

7. Norway January mainland GDP up 0.4% m/m after -0.3% m/m – better than 0.1% m/m expected. The rebound was primarily fueled by wholesale and retail trade. On the expenditure side, household consumption fell (-0.4% vs -0.2% in December 2023), attributed to a decline in consumption of goods due to a drop in household car purchases. Gross fixed capital formation decreased (-5.5% vs -5.4%), and exports dropped (-0.7% vs 1.8%) while imports rose (1.4% vs 0.6%). Also, government spending showed no increase (vs 0.6%). The rolling three-month growth was 0.2% from August-October to November-January.

Norway growth foreshadows EU?

Figure 1. Gross domestic product and household final consumption expenditures. Rolling three-month sum. Seasonally adjusted. Volume indices. 2019=100



Source: Norway Stats /BNY Mellon

Please direct questions or comments to: iFlow@BNYMellon.com

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

bnymellon.com